ANNUAL REPORT 1970

Hudson's Bay
Oil and Gas
Company Limited

Hudson's Bay Oil and Gas Company Limited 1970 Annual Report

CONTENTS

Financial and Operating Highlights 1
President's Report to Shareholders 2
General Review
- Exploration 6
- Drilling 9
- Production 10
- Map 16-17
- Supply and Transportation 18
- Employees 20

Financial Review 21
Financial Statements 24
Directors and Management 30
Ten Year Operating Review 31
Ten Year Financial Review 32

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held at the Head Office of the Company on Wednesday, April 28, 1971 at 11:30 a.m.

FINANCIAL AND OPERATING HIGHLIGHTS

	1970	1969	Increase (Decrease) Per Cent
FINANCIAL			
Gross Operating Revenues	$84,190,000	$76,495,000	10.1
Funds Generated from Operations	$44,607,000	$44,794,000	(.4)
Per Common Share	$ 2.36	$ 2.37	(.4)
Net Earnings	$20,170,000	$18,883,000	6.8
Per Common Share	$ 1.02	$ .95	7.4
Dividends Declared	$10,647,000	$10,647,000	—
Per Preferred Share	$ 2.50	$ 2.50	—
Per Common Share	$ .50	$ .50	—
Capital Expenditures	$37,364,000	$39,679,000	(5.8)
Exploration Expenses	$ 8,321,000	$ 9,438,000	(11.8)
OPERATING			
Crude Oil and Natural Gas Liquids Production—Net (Barrels per day)	60,168	54,426	10.6
Natural Gas Sales—Net (Millions of cubic feet per day)	317.0	281.7	12.5
Sulphur Sales—Net (Long tons per day)	917	760	20.7
Pipe Line Throughput (Barrels per day)	81,930	70,135	16.8
Oil and Gas Rights (Net acres at year end)	22,691,000	22,831,000	(.6)
Proved and Probable Reserves—Net (At year end)			
Crude Oil and Natural Gas Liquids (Barrels)	393,462,000	386,795,000	1.7
Natural Gas (Millions of cubic feet)	3,211,000	3,181,000	.9
Sulphur (Long tons)	9,919,000	9,760,000	1.6

PRESIDENT'S REPORT

Hudson's Bay Oil and Gas achieved continued growth in 1970, with further gains in earnings, gross revenues and operating volumes. The Company's active petroleum exploration program in Western Canada was supplemented by exploratory activities on East Coast offshore acreage and in the Arctic Islands.

Financial Results

Net earnings for 1970 were $20,170,000, a gain of 6.8% over the prior year, and after deducting preferred dividends amounted to $1.02 per common share. During 1970 deferred income tax accounting was adopted and financial results for previous years have been restated for comparability.

Funds generated from operations were essentially unchanged at $44,607,000 and after providing for preferred dividends were $2.36 per common share. These internally generated funds provided 80% of requirements for capital expenditures, dividends and retirement of long term debt. The remainder was drawn primarily from the substantial working capital balance on hand at the beginning of the year.

Gross operating revenues were $84,190,000, an increase of $7,695,000 or 10.1%. The growing demand for Western Canadian crude oil to serve both U.S. and Canadian markets led to substantial increases in production. New and expanded gas plant facilities contributed to greater natural gas, LPG, condensate and sulphur production. Gross revenues were higher for all products except sulphur where revenues declined because of the impact of worldwide oversupply conditions on unit selling prices.

Capital Expenditures and Exploration Expenses

Capital expenditures and exploration expenses for the year totalled $45,685,000 compared with $49,117,000 in 1969. The most significant variations were an $8,513,000 decrease in acreage acquisition expenditures and a $6,799,000 increase in gas plant construction outlays. Expenditures for acreage acquisition were down from 1969 when large holdings in the Arctic Islands were purchased for $9 million. The largest project contributing to the increase in gas plant expenditures was the Kaybob South No. 3 plant which is expected to be completed in mid-1971.

Major exploratory projects were undertaken on the Company's offshore acreage on Canada's East Coast and on its acreage in the Arctic Islands. A well was commenced on Melville Island in the Arctic under the terms of a farmout agreement with Panarctic Oils Ltd. The first well drilled by the Company and its partner off the coast of Prince Edward Island was dry. A second well, drilled on a different geological structure on this large block of acreage, was suspended in November due to adverse weather conditions. The cost of the second well is being paid by another company and its associate. These companies also paid for a marine seismic program on the property and are committed to spend additional amounts in order to earn an aggregate one-third interest in the entire block.

Expenditures on minerals exploration were reduced due to a sharp curtailment of the search for uranium prospects as a result of restrictions proposed by the Federal Government on foreign ownership of uranium reserves.

Plans for 1971

Capital expenditures and exploration expenses in 1971 are expected to be higher than in 1970, primarily due to major expenditures on the Zama Lake enhanced recovery scheme which is projected for 1972 completion. Acreage acquisition, drilling, and gas plant expenditures are expected to remain essentially at the 1970 level. Additional exploratory activity is planned on Company lands in Western Canada, in the Arctic Islands and off the East Coast. A large part of the costs in the Arctic and East Coast will be paid by others to earn interests in the lands.

Page 22.

Industry Review and Outlook

Canadian hydrocarbons production increased substantially in 1970 and continued rapid growth is expected in 1971. Three important events occurred during the latter portion of the year which significantly enhance the outlook for the petroleum industry in Canada. The National Energy Board granted new licenses for export of Canadian natural gas to the United States; the U.S. Government relaxed its restrictions on Canadian crude oil exports; and the industry obtained the first general increase in eight years in the price of Canadian crude oil. These developments will improve the industry's operating and financial results and provide additional incentives for exploration.

Crude oil and condensate production was up 12.5% in 1970 and a further gain of 12% is anticipated in 1971. A 20% to 25% increase in exports appears likely as a result of relaxed U.S. import controls and domestic deliveries will probably advance by 4% to 5%.

Sales of natural gas should advance 12% to 14% in 1971, following a 10.1% gain in 1970, as natural gas exports increase by 18% to 20% and domestic demand grows by approximately 8%.

Production of liquefied petroleum gases (propane and butane) increased by 18.8% in 1970 and sulphur production was up 14.2%. Recent and current expansions of plant capacity should result in a 25% gain in production in 1971. It is anticipated that present markets will absorb the additional liquid volumes but the continuing oversupply in world sulphur markets probably will necessitate stockpiling of up to 30% of industry sulphur production.

The number of exploratory wells drilled in 1970 declined, as major reductions in Western Canadian drilling were only partially offset by increased activity in the far north and off the East Coast. More emphasis in these latter two areas is likely in 1971. Although industry probably will maintain high levels of expenditure in its efforts to find new reserves, the total number of exploratory wells drilled could continue to decline as efforts are concentrated on the more remote and expensive areas.

Other Developments

Through a tender offer to its shareholders, Continental Oil Company exchanged 2,000,000 of its Hudson's Bay Oil and Gas common shares for Continental shares. This exchange, completed in December 1970, increased public ownership of the Company's shares from 12.3% to 23.2% of total shares outstanding. Continental's ownership decreased from 65.8% to 54.9% and Hudson's Bay Company's ownership was unchanged at 21.9%. In order to provide a broader market consistent with the increased public ownership, the Company listed its common and preferred shares on the Montreal Stock Exchange and its common shares on the American Stock Exchange. Both classes of stock continue to trade on the Toronto Stock Exchange. At year end, the Company had 9,751 common shareholders compared with 8,688 at the end of 1969.

Directors and Employees

In June the Board of Directors regretfully accepted the resignation of D. E. Kilgour as a Director of the Company. Throughout his association with the Company, Mr. Kilgour took an active interest in its operations. Allan M. McGavin of Vancouver, British Columbia was appointed a Director to fill this vacancy. Mr. McGavin is President of McGavin ToastMaster Limited and is also a Director of Hudson's Bay Company.

D. C. Jones, formerly Executive Vice-President, was elected President of the Company on April 21, 1970, succeeding L. J. Richards, who continues to serve as a Director. Mr. Richards contributed greatly to the Company's progress during the twenty-two years of his association, particularly during his five years as President and Chief Executive Officer.

Several other changes involving Company officers were made during the year. S. G. Olson was promoted to Executive Vice-President succeeding Mr. Jones. K. H. Burgis was promoted to the newly created position of Corporate Vice-President. G. J. Maier was promoted to Vice-President, Production; R. F. Haskayne was promoted to Financial Vice-President and Treasurer; and G. W. Bennett joined the Company as Controller.

A senior management position responsible for environmental conservation has been created. The objective is to coordinate and administer Company policies for the responsible use of resources in cooperation with the many organizations and government agencies involved in control of the environment.

The Directors wish to acknowledge the valuable contribution made by the employees to another successful year of operation. The dedication and skill shown by the staff has been a most important factor in the continued growth of the Company.

Submitted on behalf of the Board of Directors:

D. C. Jones
President

Calgary, Alberta
February 20, 1971

GENERAL REVIEW

Geophysical survey on Company lands on Melville Island. These winter operations in the high Arctic are carried out mostly in darkness and often under bitter weather conditions.

EXPLORATION REVIEW

General – Exploration expenditures, including both capital and expense items, totalled $19,265,000 in 1970, down $8,375,000 or 30.3% from the previous year. Outlays for the acquisition of exploratory acreage were $5,658,000, substantially lower than the $14,171,000 spent in 1969 when interests in a large spread of exploration acreage in the Arctic Islands were acquired for $9 million. Exploratory drilling expenditures increased by $1,255,000 to $5,286,000, while reduced geophysical activity was the major cause of a decrease in petroleum exploration expenses of $909,000 to $7,981,000. Minerals exploration expenditures were $340,000, down from $548,000 in 1969. This reduction was primarily due to curtailment of the search for uranium prospects as a result of restrictions proposed by the Federal Government on foreign ownership of uranium reserves.

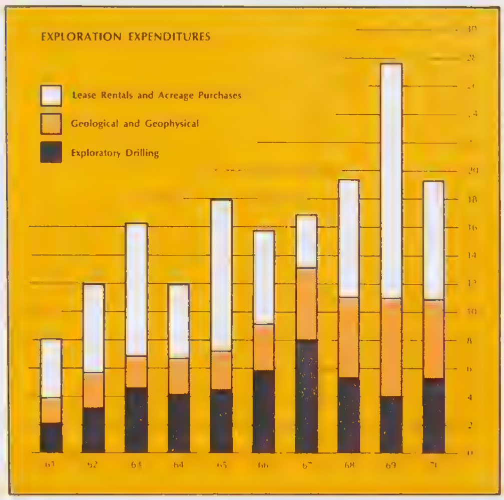
Direct outlays for petroleum exploration in 1970 were largely concentrated in the prospective areas of Alberta, British Columbia, Saskatchewan and the southern part of the Northwest Territories. In addition, a sizable program, mainly paid for by others, was conducted on the Company's holdings off the East Coast and in the Arctic.

During the year the Company agreed to pay approximately 50% of the cost of three deep exploratory tests in the Gold Creek area of West-Central Alberta in order to earn an approximate 21% interest in 62,320 acres. The drilling of these wells has been completed since year end. As of February 20, 1971, a testing program is in progress on gas shows encountered in two of the wells. The third well was dry and has been abandoned.

One unsuccessful offshore well was drilled 20 miles off the east coast of Prince Edward Island, on a 10.4 million acre block in which the Company presently holds a 50% interest. The drilling of a second offshore well on a different geological structure on the block was suspended in November before reaching total depth because of unfavourable weather conditions. It is expected that this well will be completed and possibly a third test well drilled by the end of 1972. The Company also conducted an 1,800 mile marine seismic program on the western portion of the block. The costs of the second well and of the marine seismic program are being paid by another company and its associate under an agreement whereby they will earn an aggregate one-third interest in the block after paying a total of $7 million for exploration on this acreage. At that time, the Company's ownership will be reduced to a one-third undivided interest in the entire block.

Drilling of the first well on the 3.7 million acre spread in the Arctic Islands subject to a farmout agreement with Panarctic Oils Ltd. commenced in October 1970 on Melville Island. Under the terms of the agreement, at least two additional wells will be commenced in 1971, one on Lougheed Island and one on Ellesmere Island. Panarctic has an option of drilling up to an additional seven wells to earn varying interests in the area. On completion of the Panarctic program, the Company will retain minimum interests ranging from 17 to 25% in the acreage subject to the farmout agreement.

The Company also continued marine geophysical surveys of its holdings in the Beaufort Sea.



Discoveries and Extensions – The Company participated in 20 successful exploratory tests, of which 5 were completed as oil wells and 15 as gas wells. The most significant discovery was at Shekilie in northwestern Alberta where the Company completed an oil well in a Keg River reef. This well is approximately 15 miles northwest of the Zama Lake oil field and was drilled on a wholly-owned 3,200 acre lease block. The Company owns a 100% interest in offsetting drilling reservations aggregating 16,480 acres and in adjacent lease blocks totalling 29,440 acres. Of the latter, 1,280 acres were purchased in January, 1971 at a cost of $575,000. A drilling program is currently under way to further evaluate the potential of this discovery.

The Company also participated in gas discoveries or extensions at Spruce and Ladyfern in northeastern British Columbia and at Lone Pine Creek, Phoenix and Sundance in central Alberta. The Company holds interests approximating 50% in the tracts on which these wells were drilled. These discoveries are not expected to develop into major reserves.

Acreage Holdings – During 1970, the Company acquired 1,418,000 acres of petroleum and natural gas rights, of which 1,336,000 acres were purchased at a cost of $5,658,000, and 82,000 acres were obtained through filing and other acquisitions that did not require bonus payments. A large portion of the cash expenditures was incurred for 325,000 permit acres in northeastern British Columbia purchased at a cost of $1,692,000. Other significant acreage acquisitions during the year included purchases in Alberta of an 11,200 acre drilling reservation at West Edson for $664,000, two drilling reservations totalling 16,480 acres in the Shekilie area for $1,100,000, and 65,280 reservation acres at North Lubicon for $196,000. In Saskatchewan, 278,720 permit acres were acquired in the Fillmore area at a cost of $198,690 and in the southwestern part of the province 419,520 permit acres were purchased for $320,000.

During the year the Company surrendered or released its interests in 1,558,000 acres of petroleum and natural gas rights. These included 716,000 acres released after geological and geophysical evaluation, 794,000 acres surrendered under governmental regulations on conversion of permits and reservations to lease status, and interests equivalent to 48,000 net acres assigned to other companies in return for their drilling wells on Company lands. In addition, 22,000 acres were transferred to the developed category.

At year end the Company held 22,157,000 net acres of undeveloped petroleum and natural gas rights acquired at a total cost of $48,979,000. Rental payments in 1970 totalled $2,696,000.

UNDEVELOPED PETROLEUM AND NATURAL GAS RIGHTS

Net Acreage Holdings as at December 31, 1970 (1)

Location	Crown Permits or Reservations (2)	Leaseholds	Hudson's Bay Company Lands (3)	Fee Lands	Total
Alberta	395,000	1,841,000	1,491,000	85,000	3,812,000
Saskatchewan	1,479,000	613,000	2,317,000	102,000	4,511,000
British Columbia	2,068,000	560,000	6,000	—	2,634,000
Northwest Territories (including Arctic Islands)	5,124,000	92,000	—	—	5,216,000
Maritimes	5,195,000	—	—	—	5,195,000
Manitoba	—	—	700,000	89,000	789,000
Total	14,261,000	3,106,000	4,514,000	276,000	22,157,000

(1) The figures in this table are subject to modification by exploration agreements whereby others may earn an interest in the Company's acreage by undertaking certain exploratory work and also whereby the Company may do exploratory work to earn an interest in lands held by others.

(2) Convertible into leases to the extent of approximately 50%.

(3) Held under an agreement which permits conversion to leases at any time up to December 31, 1999 without bonus payment.

DRILLING REVIEW

During 1970 the Company participated in drilling 225 wells compared with 244 wells in 1969. In addition to its direct drilling participation, royalty interests were retained in 16 wells drilled on properties farmed out to others.

Exploratory completions totalled 66 gross wells, 25 of which were farmout wells where drilling costs were borne by the farmees in exchange for an interest in the lands on which the wells were drilled. Exploratory completions were down by 23 gross wells compared to 1969 because fewer farmout wells were drilled. Included in the total were 27 gross exploratory wells in Alberta, 17 in British Columbia, 15 in Saskatchewan, 6 in the Northwest Territories and one in the Maritimes. The Company's interests in the gross exploratory completions were equivalent to 34.8 net wells, of which 10.8 resulted in discoveries or extensions.

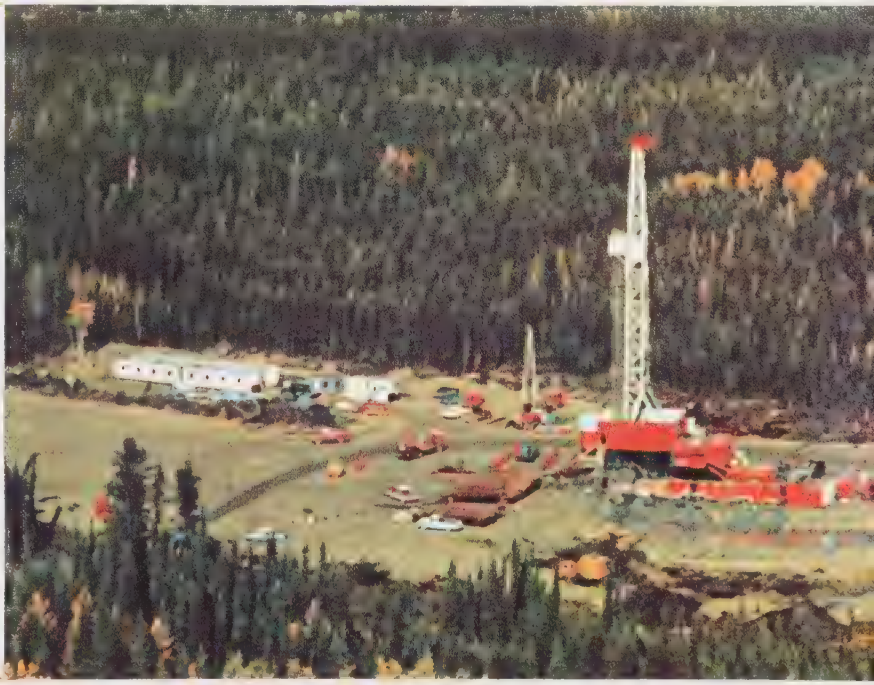
In 1970, 49.5 net development wells were drilled compared with 58.0 in the year before. Included in the completions are 15.5 net farmout wells. The total net development wells comprise 31.4 in Alberta, 13.0 in Saskatchewan and 5.1 in British Columbia. Oil well completions totalled 23.8 net wells, or 48% of total net completions. Significant development oil wells included infill wells in Pembina, Milligan Creek and Peejay and additional development wells in the Kaybob South Triassic field. Farmouts of Hudson's Bay Company lands in the southwest area of Saskatchewan resulted in 7.5 net oil wells. Gas well completions totalled 13.4 net wells, or 27% of total net completions. Although development drilling in the Kaybob South Beaverhill Lake field declined from the high level of previous years, this area was still the most active for development gas well drilling in 1970.

Winter drilling within 1,000 miles of the north pole is shown on the opposite page. This is the first well to be drilled on Company lands in the Arctic Islands.

One of the Company's exploratory wells in the Gold Creek area of West-Central Alberta.

WELL COMPLETIONS

	1970 Gross	1970 Net	1969 Gross	1969 Net
Exploratory				
Oil	5	2.7	8	4.0
Gas	15	8.1	9	4.9
Dry	46	24.0	72	43.1
Total	66	34.8	89	52.0
Average Depth		5,092′		4,980′
Development				
Oil	73	23.8	61	31.5
Gas	57	13.4	77	19.8
Dry	29	12.3	17	6.7
Total	159	49.5	155	58.0
Average Depth		5,318′		4,650′



The Kaybob South No. 1 and No. 2 plant complex. This is one of the largest gas processing operations in Canada.

PRODUCTION REVIEW

Crude Oil – The Company's net crude oil production averaged 45,560 barrels per day, a gain of 3,082 barrels per day or 7.3% over 1969 production. The improvement resulted primarily from higher allowable production rates in Alberta based on the increased demand for Canadian crude oil. Production from new wells drilled in 1970, a full year's production from wells completed in 1969, and production increases resulting from newly instituted enhanced recovery projects also contributed to the growth. These positive factors were partially offset by productivity decreases in older fields and decreases in the allowable production at Zama Lake resulting from a redetermination of crude oil reserves recoverable by primary production methods.

Enhanced recovery projects – designed to improve or maintain producing rates and ultimately recover a larger percentage of the oil-in-place in the reservoir – were initiated in seven pools during 1970. In several other fields the existing enhanced recovery facilities were expanded. Late in the year the Company received approval from the Oil and Gas Conservation Board to proceed with the installation of a major enhanced recovery project in the

Zama Lake area of northwest Alberta. It is expected that the plant and other facilities for this project will be completed in 1972. When the system becomes fully effective the Company's allowable production rates from Zama Lake will be materially increased.

Economies normally are achieved by consolidating the operations of various owners within a pool as one unit and, accordingly, the Company continued its emphasis on unitization projects. It participated in the formation of 19 units in 1970 and at year end had interests in 188 units.

The average wellhead price received by the Company for its 1970 crude oil production was $2.42 per barrel, slightly above the prior year's average of $2.37. The first industry-wide increase in the price of crude oil in eight years – approximately 25c per barrel – was announced in mid-December. Since the increase became effective near the end of the year, it had only a modest effect on 1970 operating revenues.

Natural Gas and Associated Products – Continuing expansion of the Company's gas processing facilities in 1970 included completions of the Kaybob South No. 2 plant in January; a gas conservation project in northeast British Columbia in May; a gas processing plant in Greencourt, Alberta, in June; and modifications to the West Whitecourt plant in Alberta in July. When fully operational, these new facilities increased the Company's daily net production by 17 million cubic feet of natural gas, 2,190 barrels of natural gas liquids and 270 long tons of sulphur. At year end the Company had interests in 45 gas processing plants.

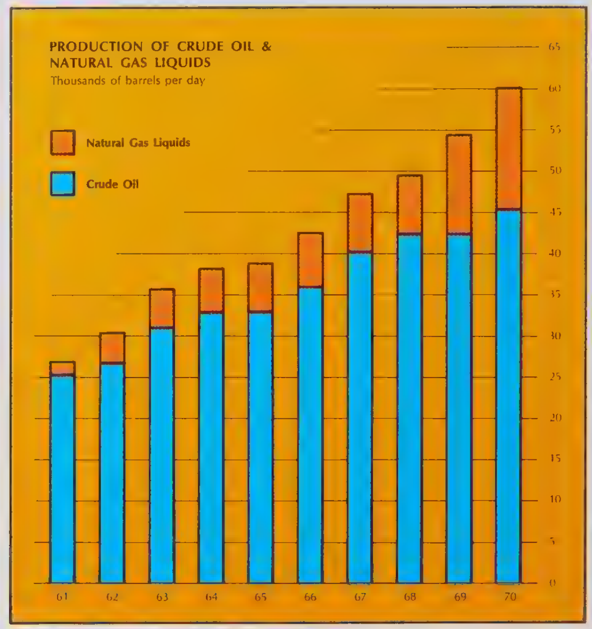
Sales of natural gas averaged 317.0 million cubic feet per day, up 35.3 million cubic feet per day or 12.5% over 1969. The major part of this increase is attributable to the Edson plant where sales increased in accordance with the gas purchase agreement. In addition, new sales were recorded from the

CRUDE OIL PRODUCTION — NET
(Barrels Per Day)

	1970	1969
Alberta		
Pembina	7,990	7,734
Zama Lake	3,809	4,839
Virginia Hills	2,442	2,081
Sundre	1,843	1,545
Sturgeon Lake South	1,591	1,461
Kaybob South	1,530	1,232
Medicine River	1,413	1,126
Cessford	1,272	1,360
Nipisi	1,150	715
Bonnie Glen	1,136	933
Innisfail	1,056	831
Sylvan Lake	795	473
Fenn Big Valley	768	694
Other Fields	7,548	6,808
Total	34,343	31,832
British Columbia		
Milligan Creek	4,241	3,959
Peejay	1,344	1,575
Wildmint	733	473
Other Fields	90	93
Total	6,408	6,100
Saskatchewan		
Success	838	779
Hummingbird	771	838
Other Fields	3,182	2,910
Total	4,791	4,527
Manitoba	18	19
Total	45,560	42,478

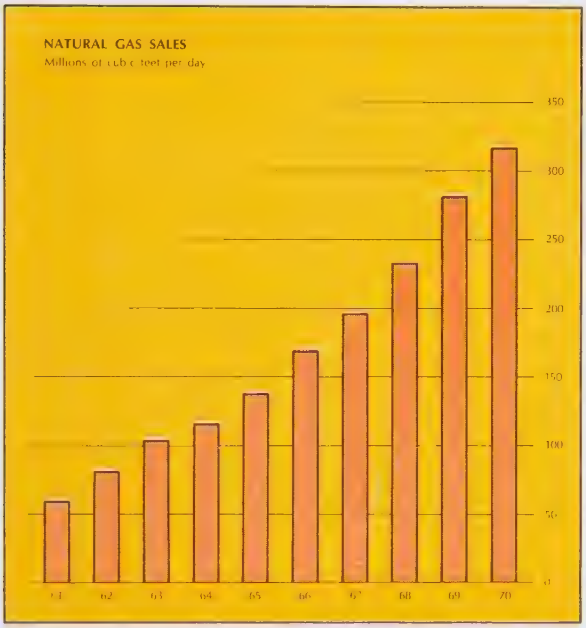
northeast British Columbia gas conservation scheme and from the Kaybob South No. 2 and Greencourt plants in Alberta. The average price obtained for 1970 gas sales was 15.5 cents per thousand cubic feet compared with 15.3 cents in 1969.

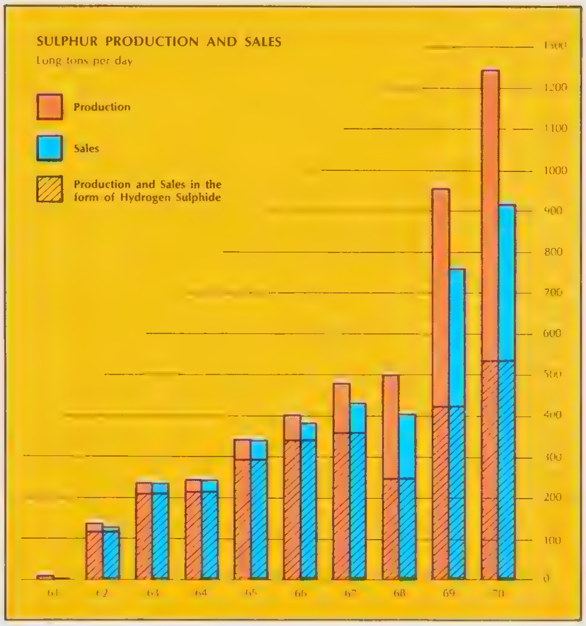
Condensate production averaged 11,890 barrels per day, up 1,832 barrels per day or 18.2% and LPG production (propane and butane) averaged 2,718 barrels per day, up 828 barrels per day or 43.8%. As shown by the accom-



The results of re-seeding of pipe line rights-of-way. Approximately 2,600 acres have been reclaimed in this manner.

panying table, these increases are attributable to the Kaybob South operation where the No. 1 plant operated for its first full year and the No. 2 plant commenced operation in January. The average plant price received for condensate was $2.74 per barrel as compared with $2.70 per barrel in the prior year. The average plant price received for LPG was $1.16 per barrel, up from $1.08 per barrel in 1969. Propane prices improved as a result of a general firming of the wholesale propane market but butane prices were adversely affected by the revaluation of the Canadian dollar.





NATURAL GAS AND ASSOCIATED PRODUCTS — NET

Location	Natural Gas Sales (Million Cubic Feet Per Day) 1970	1969	Natural Gas Liquids Production: Condensate (Barrels Per Day) 1970	1969	LPG (Barrels Per Day) 1970	1969	Sulphur Production (Long Tons Per Day) 1970	1969
Brazeau	25.4	26.8	410	461	–	–	10	11
Caroline	13.3	15.0	423	503	339	323	5	4
Cessford	38.2	41.1	100	114	–	–	–	–
Clarke Lake	15.6	17.7	–	–	–	–	–	–
Edson	77.2	53.1	744	636	–	–	56	41
Harmattan	–	–	401	401	203	218	–	–
Kaybob – Plant No. 1	6.8	5.6	3,211	2,887	1,270	484	240	205
Kaybob – Plant No. 2	3.0	–	1,735	–	–	–	140	–
Lone Pine Creek	19.7	16.3	646	648	–	–	78	69
Pembina	7.3	7.8	30	26	102	76	–	–
Rimbey/Westerose	7.1	6.2	292	298	311	296	7	6
Sylvan Lake	10.7	10.1	200	223	336	374	–	–
Whitecourt	38.2	35.0	3,075	3,310	–	–	564	485
Other Locations	54.5	47.0	623	551	157	119	146	134
	317.0	281.7	11,890	10,058	2,718	1,890	1,246	955

Sulphur production totalled 454,798 long tons, an average of 1,246 long tons per day, and was up 30.5% from 1969. Most of the increase was derived from new production at Kaybob South and greater sulphur recoveries at the West Whitecourt plant. Sulphur sales increased by 20.7% to 334,873 long tons, an average of 917 long tons per day, and were equivalent to 73.6% of production volumes for the year. Most of the Company's sulphur production from the West Whitecourt plant is sold as produced under a contract whereby the purchaser takes delivery of the hydrogen sulphide contained in the natural gas produced from the field, converts it to elemental sulphur in its plant and pays the Company approximately one-half of the current sales value of the sulphur. Sales under this contract totalled 195,532 tons in 1970 compared with 154,071 tons in 1969.

The Company's other sulphur sales totalled 139,341 long tons in 1970 compared with 123,380 long tons in 1969. The average net realization on all sulphur sales declined sharply in 1970 due to lower prices resulting from world-wide oversupply conditions.

The Company has an important ownership interest in the giant Kaybob South No. 3 Plant which is scheduled to commence production in 1971.

Gas plants currently under construction and expected to be completed in 1971 include the Kaybob South No. 3 plant, operated by another company, and the installation of facilities to recover a mixed LPG stream at the Company operated Kaybob South No. 2 plant. When fully operational the Kaybob South No. 3 plant will add about 7 million cubic feet of natural gas, 6,200 barrels of natural gas liquids and 350 long tons of sulphur to the Company's daily net production and the LPG recovery facilities at Kaybob South No. 2 will increase net LPG production by approximately 1,100 barrels per day.

Reserves – The Company's net remaining recoverable reserves at year end (after deducting all royalties and interests owned by others), as estimated by its reservoir engineering staff, are shown in the accompanying table. The estimated proved reserves include only such reserves as can reasonably be classified as proved in accordance with widely accepted American Petroleum Institute standards. Probable reserves include reserves which are substantially proved on undrilled tracts closely associated with proved reserves and for which geological control is sufficient to offer good indication of continuity of the producing horizon. Incremental reserves from enhanced recovery techniques are included in the probable category when the required facilities are installed and are transferred to the proved category only after the anticipated reservoir performance has been confirmed. Liquefied petroleum gases are not included in the reported reserves of natural gas liquids unless the facilities required for their extraction are in existence or are assured of construction. Heavy oil, such as in the Athabasca Tar Sands, has not been included.

The Company's reserves increased during 1970, with modest gains in each category of remaining recoverable reserves. Additions to liquid hydrocarbon reserves amounted to 28,628,000 barrels compared with total production of 21,961,000 barrels, for a resulting net gain of 6,667,000 barrels in remaining recoverable reserves. Remaining recoverable reserves of crude oil increased by 5,181,000 barrels mainly due to the installation of new enhanced recovery facilities and the expansion and optimization of certain existing enhanced recovery projects. Increases in the recovery factors assigned to certain pools, based on their performance to date, and development drilling carried out during the year also were significant factors. Remaining natural gas liquids reserves increased by 1,486,000 barrels. Additions to natural gas reserves totalled 146 billion cubic feet compared with production of 116 billion cubic feet, resulting in an increase of 30 billion cubic feet in remaining recoverable reserves. Remaining sulphur reserves were 159,000 long tons higher than at the end of 1969.

NET RESERVES
December 31, 1970

	Crude Oil (barrels)	Natural Gas Liquids (barrels)	Natural Gas (million cubic feet)	Sulphur (long tons)
Proved	268,020,000	103,133,000	2,902,000	8,767,000
Probable	19,137,000	3,172,000	309,000	1,152,000
Total	287,157,000	106,305,000	3,211,000	9,919,000


ARCTIC OCEAN
PACIFIC OCEAN
AXEL HEIBERG ISLAND
ELLESMERE ISLAND
BORDER I.
ELLEF RINGNES I.
AMUND RINGNES I.
PRINCE PATRICK I.
MACKENZIE I.
LOUGHEED I.
MELVILLE I.
BATHURST I.
DEVON ISLAND
CORNWALLIS I.
BANKS ISLAND
SOMERSET I.
PRINCE OF WALES I.
VICTORIA ISLAND
TUKTOYAKTUK
INUVIK
YUKON
NORMAN WELLS
NORTHWEST TERRITORIES
WHITEHORSE
YELLOWKNIFE
FORT ST. JOHN
BRITISH COLUMBIA
McMURRAY
ALBERTA
SASKATCHEWAN
MANITOBA
EDMONTON
SASKATOON
CALGARY
VANCOUVER
REGINA
WINNIPEG

MAP SHOWING ACREAGE HOLDINGS
of
Hudson's Bay Oil and Gas Company Limited
at December 31, 1970
LEGEND
The areas within which the Company has substantial holdings of petroleum and natural gas rights are indicated by the red color.
The Company has the exclusive right until December 31, 1999 to acquire leases on all petroleum and natural gas rights owned by Hudson's Bay Company. This right covers approximately 4,500,000 acres of lands, most of which are distributed in a regular pattern—basically all or part of two one-square-mile sections in each 36-section township—in the areas covered by this light red tinting.
0 100 200 300
MILES
BAFFIN ISLAND
PRINCE CHARLES I.
SOUTHAMPTON I.
HUDSON BAY
NEWFOUNDLAND
QUEBEC
ANTICOSTI I.
ONTARIO
ATLANTIC OCEAN
ST. JOHN'S
P.E.I.
CHARLOTTETOWN
NEW BRUNSWICK
FREDERICTON
NOVA SCOTIA
HALIFAX
QUEBEC
MONTREAL
OTTAWA

Capacity of the Company's oil pipe line to the U.S. border was increased through the installation of an intermediate pumping station at Hartell.

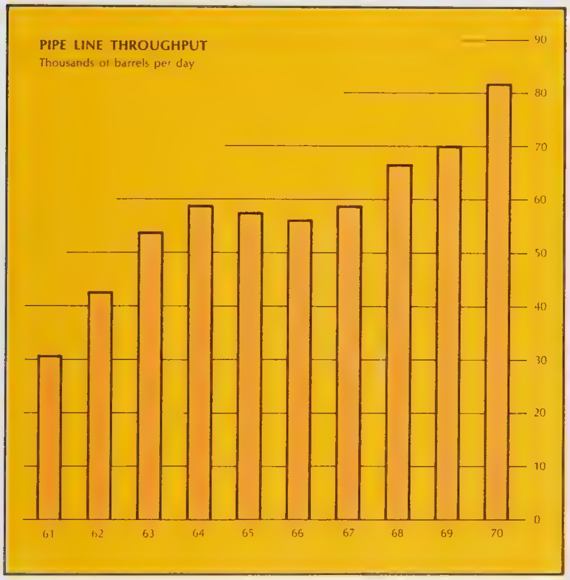
SUPPLY AND TRANSPORTATION REVIEW

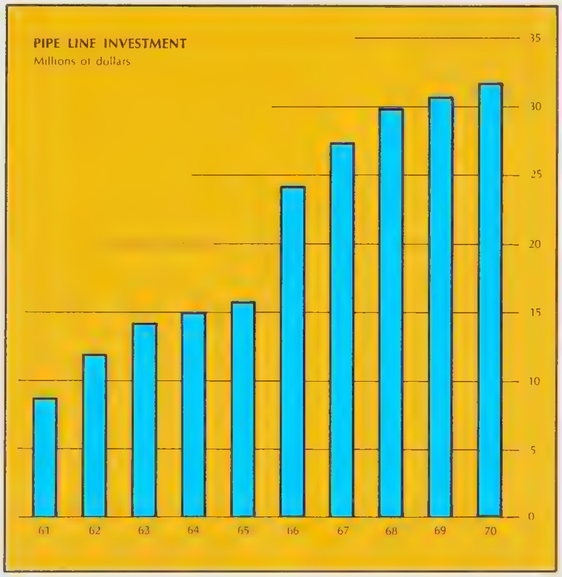
Pipe Lines – The volume of crude oil and natural gas liquids gathered and transported through the Company's wholly-owned pipe line systems increased substantially during 1970. The total volume handled averaged 81,930 barrels per day, up 16.8% over the 70,135 barrels per day transported in 1969. This additional throughput resulted primarily from increased production of crude oil brought about by higher allocations under the Alberta proration system to meet growing market demand. Revenue from pipe line operations grew more rapidly than volumes because of the larger proportion of long distance trunk line movements through the Company's system to connecting pipe lines serving the U.S. Rocky Mountain area.

Additions and extensions to the Company's pipe line systems involved expenditures of $998,000, bringing the total investment in pipe line properties to $31,667,000. At year end, the Company's pipe line facilities comprised

420 miles of trunk line and 450 miles of gathering systems. The 1970 construction program included 23 miles of 6-inch gathering line to serve the Ricinus oil field and the installation of an intermediate pumping station on the Sundre-Pincher Creek 12-inch trunk line to provide additional capacity for growing movements to the United States.

In addition to these wholly-owned properties, the Company holds an interest of approximately 16% in Peace River Oil Pipe Line Co. Ltd. This producer-owned system operates an extensive crude oil gathering and trunk line facility in northwest Alberta. Near the end of the year the Company sold its 4% interest in Producers Pipeline Ltd.





Other Operations – The Company's wholly-owned retail propane subsidiary, Blue Flame Propane Ltd., continued to expand. New branches or consignee operations were initiated in British Columbia, Saskatchewan and Manitoba. Primarily as a result of abnormally mild winter conditions in the early part of the year, and a general slowdown of the economy in the areas served, the volume of propane sold through the operation was essentially unchanged from the previous year at 9.9 million gallons.

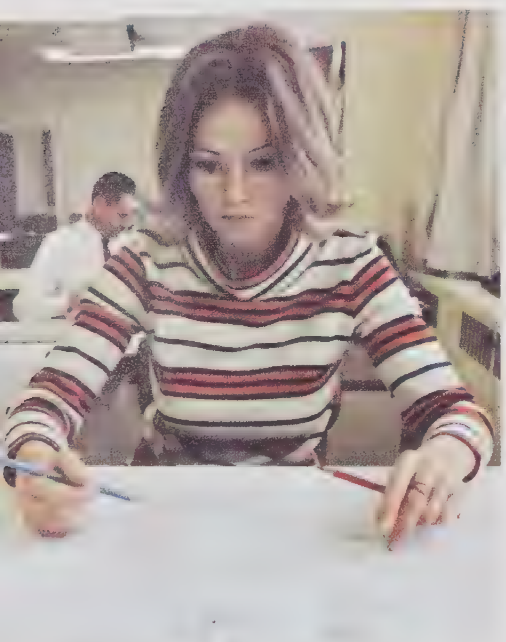
The Company expanded its crude oil trading operations which now involves the purchase of crude oil on 11 Canadian pipe line systems and direct sales arrangements with 11 U.S. refinery customers. The volume of crude oil and equivalents handled by this operation averaged 85,400 barrels per day during the year. The Company also recorded a substantial increase in LPG sales in Canadian, U.S., and offshore markets.

EMPLOYEES

At year end the Company and its subsidiaries had a total of 1,043 employees, 105 more than at the beginning of the year. Additional personnel requirements for expanding production operations accounted for most of the additions. The total cost of salaries, wages and employee benefits reached $10,763,000 in 1970, up 18.3%.

To assist in meeting its requirements for professional and technical staff, the Company again recruited at many of the major universities across Canada and at several technical schools. The Company sponsored and supported programs, both on the job and through facilities available at educational institutions, to develop the technical, professional, and managerial skills of its employees. In addition, financial assistance was provided to almost 100 employees who successfully completed work-related evening and correspondence courses.

Through its Financial Aid to Education Program, the Company contributed a total of $82,000 in support of higher education by providing funds for capital projects, grants, awards, and scholarships. A total of 16 scholarships were awarded to employees' sons and daughters.



Employees perform a variety of duties in widely separated geographical locations. In the top picture, an employee monitors the central control panel at the Kaybob South No. 1 plant in Northern Alberta. Lower-left, exploration drafting at the Head Office in Calgary, while on the right, a Company employee directs the offshore drilling operation on Canada's east coast.

Continuing emphasis was placed on accident prevention throughout 1970. Six of the Company operated gas processing plants were presented with Safety Awards by the Canadian Natural Gas Processors Association for operating twelve consecutive months accident free. In addition, employees at the Cessford gas processing plant achieved an Alberta industry record in January, 1970 by operating for ten consecutive years without a lost time accident.

The Company provides a broad range of benefit programs for its employees, including a fully funded retirement program and a Thrift Plan designed to encourage savings through Company contributions in proportion to the amounts deposited by employees. At year end the assets of the Thrift Plan included 5,007 preferred shares and 32,262 common shares of the Company's capital stock purchased on instructions of employees for their accounts.

FINANCIAL REVIEW

Net earnings in 1970 were $20,170,000 or $1.02 per common share, an increase of 6.8% over 1969 earnings of $18,883,000 or 95 cents per common share. Funds generated from operations amounted to $44,607,000, or $2.36 per common share, essentially unchanged from the prior year. A $5,307,000 increase in funds generated before tax was offset by an increase in income taxes currently payable.

On October 20, 1970 the Company retroactively adopted deferred tax accounting with respect to all timing differences between net earnings and taxable income in accordance with the recommendations of the Canadian Institute of Chartered Accountants. Implementation of this change in accounting policy on a retroactive basis for the period from inception of the Company resulted in a cumulative transfer to December 31, 1969 of $53,844,000 from retained earnings to deferred income taxes. Full disclosure of the annual and cumulative amounts of deferred income taxes had been made in each of the past few years in the Notes to the Financial Statements in the Company's Annual Reports to shareholders. In this Annual Report financial results for prior years have been re-stated to provide a consistent basis of comparison.

Dividends declared for the year totalled $10,647,000, the same amount as in 1969. Regular quarterly dividends of 62.5 cents per share, totalling $1,500,000, were declared on the preferred shares and semi-annual dividends of 25 cents per share – a total of $9,147,000 – were declared on the common shares. The most recent common dividend was paid on January 29, 1971 to shareholders of record on December 31, 1970.

Gross operating revenues in 1970 were $84,190,000, an increase of $7,695,000 or 10.1%. The accompanying table shows the major sources of operating revenues and changes from the prior year. The reasons for major changes have been discussed in earlier sections of this report. Income from investments and other miscellaneous sources totalled $4,154,000, down $713,000.

GROSS OPERATING REVENUES

Category	Amount in 1970	Percentage of Total	Amount in 1969	Percentage of Total	Increase (Decrease) from 1969 Amount	Per Cent
Crude Oil	$40,416,000	48.0	$36,580,000	47.8	$3,836,000	10.5
Natural Gas Liquids	12,926,000	15.4	10,593,000	13.8	2,333,000	22.0
Natural Gas	17,938,000	21.3	15,742,000	20.6	2,196,000	13.9
Sulphur	1,421,000	1.7	4,272,000	5.6	(2,851,000)	(66.7)
Processing Non-Owned Gas	3,061,000	3.6	2,659,000	3.5	402,000	15.1
Pipe Line and Product Distribution	8,428,000	10.0	6,649,000	8.7	1,779,000	26.8
Total	$84,190,000	100.0	$76,495,000	100.0	$7,695,000	10.1

Total expenses for the year, before income taxes, amounted to $56,060,000, up $4,088,000 or 7.9%. These expenses include $29,004,000 of cash operating expenses, up 7.6%; $21,484,000 of non-cash charges, up 11.5%; and $5,572,000 of interest and other expenses.

The main contributor to higher cash operating costs was a $2,213,000 or 16.5% increase in production expenses, primarily attributable to new gas plants started up in 1969 and 1970. Administrative costs were up by $585,000 of which approximately one-third resulted from non-recurring items. Partially offsetting these higher costs was a decline of $1,117,000 in exploration expenses due to lower expenditures on geophysical projects.

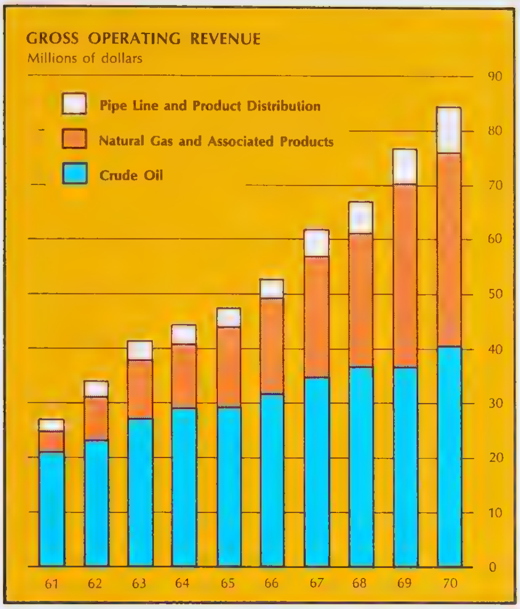
Non-cash charges for depletion, depreciation and amortization totalled $16,879,000, an increase of $1,623,000. The larger provision for depletion reflects higher production volumes while the additional depreciation resulted from the continuing new investment in gas plants. Amortization charges on undeveloped acreage reflect a full year's provision at the higher rate introduced during 1969. Dry hole costs were up $600,000 mainly due to the high cost well drilled off the coast of Prince Edward Island.

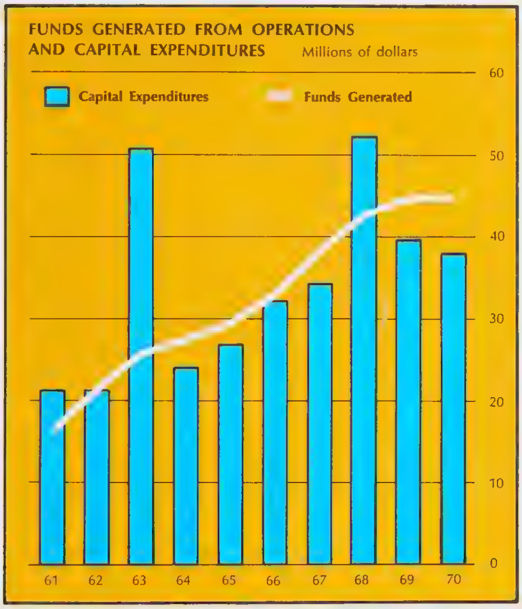
The total provision required for income taxes was $12,114,000 compared with $10,507,000 in 1969. Income taxes currently payable totalled $7,854,000 versus $2,360,000 in 1969 when the Company was able to reduce its currently taxable income by claiming $9 million of exploration and drilling expenditures carried forward from prior years. Conversely, the provision required for deferred income taxes in 1970 was only $4,260,000 compared with $8,147,000 in 1969.

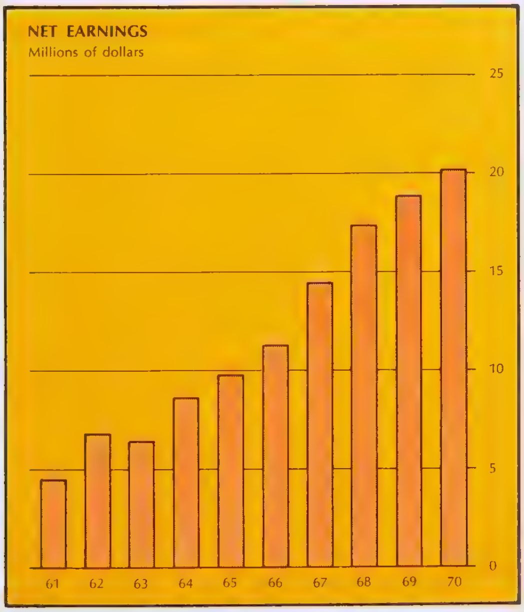
Capital expenditures totalled $37,364,000, compared with $39,679,000 in 1969. Acquisition costs of oil and gas rights, at $5,658,000, were down by $8,513,000 from the prior year when $9,000,000 was spent on Arctic acreage. Outlays for gas plant facilities increased by $6,799,000 to a total of $15,462,000. Exploratory drilling increased $1,255,000 but was more than offset by a decline in development drilling of $1,986,000.

Proceeds from the disposal of properties and investments during the year totalled $2,562,000. The most significant items were a reimbursement of investment received from other producers upon adjustment of their interests in Kaybob Units No. 1 and 2 and sale of the Company's 4% interest in Producers Pipelines Ltd.

In 1970, the Company again received partial prepayments for future natural gas sales with $1,481,000 being received for gas reserves in the Harmattan area. The prepayments are interest-free to the Company and have been recorded as deferred credits. The amounts will be repaid from a portion of proceeds from future gas deliveries and accordingly have not been taken into current revenues. In the event that the purchaser is unable to take delivery of the gas, the contracts provide that the funds advanced will be repaid out of the revenue received when the gas is sold and delivered to another buyer.







The amount of funds required in 1970 for capital expenditures, dividends, retirement of debt and other miscellaneous outlays exceeded by $5,922,000 the funds generated from operations and those obtained from disposal of properties and investments and from gas sales prepayments. This deficiency was drawn from working capital which at year end remained strong at $19,486,000.

In November 1970, Continental Oil Company completed a tender offer whereby its shareholders were invited to exchange their Continental shares for 2,000,000 of the 12,039,067 common shares of Hudson's Bay Oil and Gas then held by Continental. This offer was fully subscribed with the result that Continental's ownership of the Company's common shares has been reduced from 65.8% to 54.9%. Hudson's Bay Company continues to hold 21.9% and public ownership has increased from 12.3% to 23.2%. Concurrently with this large addition to the public holdings of the Company's stock the trading facilities for the shares were broadened by listing them on additional stock exchanges. The Company listed its common shares on the American Stock Exchange and its common and preferred shares on the Montreal Stock Exchange. Both classes of shares continue to trade on The Toronto Stock Exchange. At year end, the Company had 9,751 common shareholders compared with 8,688 a year ago. Preferred shareholders numbered 2,625, compared with 2,677 a year ago.

Hudson's Bay Oil and Gas Company Limited and Subsidiary Companies

CONSOLIDATED BALANCE SHEET - DECEMBER 31, 1970 AND 1969

ASSETS

	1970	1969
CURRENT ASSETS		
Cash	$ 1,691,000	$ 1,374,000
Short term investments at cost, which approximates market	25,056,000	31,860,000
Accounts receivable (Note 5)	26,538,000	20,257,000
Inventories		
Products at lower of average cost or realizable value	3,496,000	1,462,000
Materials and supplies at or below average cost	1,459,000	1,275,000
	58,240,000	56,228,000
PROPERTY, PLANT AND EQUIPMENT (Notes 1 and 2)		
At cost	398,479,000	370,027,000
Less: Accumulated depreciation, depletion and amortization	133,376,000	119,008,000
	265,103,000	251,019,000
OTHER ASSETS		
Production payments receivable	156,000	3,761,000
Less: Loans repayable therefrom (Note 6)	156,000	3,761,000
	–	–
Investments in non-controlled companies at cost	1,571,000	1,793,000
Unamortized bond discount and expense	749,000	821,000
Unamortized goodwill	259,000	286,000
Deposits, deferred charges and miscellaneous assets at cost	2,835,000	3,360,000
	5,414,000	6,260,000
	$328,757,000	$313,507,000

Approved on behalf of the Board:

D G Jones, DIRECTOR

L. J. Richards, DIRECTOR

LIABILITIES AND SHAREHOLDERS' EQUITY

	1970	1969
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 5)	$ 22,977,000	$ 19,226,000
Dividends payable (Note 5)	4,949,000	4,949,000
Income and other taxes payable	6,653,000	2,407,000
Long term debt due within one year (Note 6)	4,175,000	4,238,000
	38,754,000	30,820,000
LONG TERM DEBT (Note 6)	75,334,000	83,061,000
DEFERRED CREDITS		
Advances received on future natural gas sales	6,538,000	5,175,000
Other	1,437,000	1,540,000
	7,975,000	6,715,000
DEFERRED INCOME TAXES (Note 4)	58,104,000	53,844,000
SHAREHOLDERS' EQUITY		
Capital stock (Note 7)		
Authorized		
Preferred – $50 par value – 1,500,000 shares		
Common – $2.50 par value – 25,000,000 shares		
Issued and outstanding		
5% Cumulative Redeemable Convertible Preferred Shares Series A – 600,000 shares	30,000,000	30,000,000
Common – 18,294,044 shares	45,735,000	45,735,000
Contributed surplus	21,095,000	21,095,000
Retained earnings	51,760,000	42,237,000
	148,590,000	139,067,000
	$328,757,000	$313,507,000

See accompanying notes

CONSOLIDATED STATEMENT OF EARNINGS

Years Ended December 31, 1970 and 1969

	1970	1969
REVENUES		
Gross operating revenues	$84,190,000	$76,495,000
Investment and other income	4,154,000	4,867,000
	88,344,000	81,362,000
EXPENSES		
Exploration	8,321,000	9,438,000
Production	15,629,000	13,416,000
Pipe line and product distribution	2,481,000	2,119,000
General administrative	2,573,000	1,988,000
Depletion	5,510,000	5,305,000
Depreciation	8,082,000	7,498,000
Amortization of undeveloped oil and gas rights	3,287,000	2,453,000
Dry holes and abandonments	4,605,000	4,005,000
Interest (Note 6)	5,478,000	5,588,000
Other	94,000	162,000
	56,060,000	51,972,000
NET EARNINGS BEFORE INCOME TAXES	32,284,000	29,390,000
INCOME TAXES (Note 4)		
Payable	7,854,000	2,360,000
Deferred	4,260,000	8,147,000
	12,114,000	10,507,000
NET EARNINGS (Notes 1 and 4)	$20,170,000	$18,883,000
NET EARNINGS PER COMMON SHARE (after preferred dividends)	$1.02	$.95

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years Ended December 31, 1970 and 1969

	1970	1969
Retained Earnings – January 1		
As previously reported	$96,081,000	$79,698,000
Retroactive adjustment in respect to provision for deferred income taxes (Note 4)	53,844,000	45,697,000
As restated	42,237,000	34,001,000
Net Earnings (Note 4)	20,170,000	18,883,000
	62,407,000	52,884,000
Dividends Declared		
Preferred shares	1,500,000	1,500,000
Common shares	9,147,000	9,147,000
	10,647,000	10,647,000
Retained Earnings – December 31	$51,760,000	$42,237,000

See accompanying notes

CONSOLIDATED STATEMENT OF SOURCES AND USES OF FUNDS

Years Ended December 31, 1970 and 1969

	1970	1969
SOURCES OF FUNDS		
Net earnings	$ 20,170,000	$ 18,883,000
Add non-cash items deducted in determining net earnings:		
Depreciation, depletion and amortization	16,879,000	15,256,000
Dry holes and abandonments	4,605,000	4,005,000
Deferred income taxes	4,260,000	8,147,000
Other	(1,307,000)	(1,497,000)
Funds generated from operations	44,607,000	44,794,000
Sale of Collateral Trust Bonds	–	26,909,000
Sale of properties and investments	2,562,000	2,389,000
Advances received on future natural gas sales	1,481,000	5,175,000
Miscellaneous – net	1,166,000	(916,000)
TOTAL FUNDS AVAILABLE	$ 49,816,000	$ 78,351,000
USES OF FUNDS		
Expenditures for property, plant and equipment	$ 37,364,000	$ 39,679,000
Reduction of long term debt	7,727,000	6,441,000
Dividends declared	10,647,000	10,647,000
TOTAL FUNDS USED	$ 55,738,000	$ 56,767,000
RESULTING INCREASE (DECREASE)		
In cash and short term investments	$ (6,487,000)	$ 16,724,000
In other working capital items	565,000	4,860,000
IN TOTAL WORKING CAPITAL	$ (5,922,000)	$ 21,584,000
Working Capital – December 31	$ 19,486,000	$ 25,408,000

See accompanying notes

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Hudson's Bay Oil and Gas Company Limited and subsidiary companies as of December 31, 1970 and the consolidated statements of earnings, retained earnings and sources and uses of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company and subsidiary companies at December 31, 1970 and the results of their operations and the sources and uses of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change in the method of accounting for deferred income taxes as explained in Note 4.

Calgary, Alberta
January 28, 1971

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) ACCOUNTING PRINCIPLES:

The consolidated financial statements include the accounts of Hudson's Bay Oil and Gas Company Limited and its subsidiary companies, each of which is wholly owned. Where the purchase price of shares of subsidiaries exceeded their net book values, the excess has been allocated to the related assets acquired and additional depreciation, depletion and amortization has been provided accordingly.

Exploration expenses are charged against earnings as incurred.

Costs of oil and gas rights are capitalized when acquired. A regular charge is made to earnings for amortization of undeveloped oil and gas rights and when such rights are surrendered their cost is charged against the accumulated amortization. When undeveloped rights are proven to be productive the original cost is transferred to the developed oil and gas rights account and charged to earnings by an annual provision for depletion calculated on the unit of production method.

All costs of drilling wells are initially capitalized. If, on completion, a well is not capable of commercial production its cost is immediately written off. The costs of successful wells, other than equipment costs, are depleted on the unit of production method in the same manner as the cost of developed oil and gas rights.

Plant, pipe line and equipment costs are depreciated on the straight line method at rates estimated to amortize the costs over the useful lives of the assets, except that certain pipe line assets are depreciated on the unit of throughput method.

On October 20, 1970, the Company retroactively adopted the deferred income tax accounting concept in respect to all timing differences between net earnings and taxable income as more fully explained in Note 4.

(2) PROPERTY, PLANT AND EQUIPMENT:

	Assets at Cost	Accumulated Depreciation	Accumulated Depletion	Accumulated Amortization	Net
Undeveloped oil and gas rights	$ 48,979,000	$ –	$ –	$7,634,000	$ 41,345,000
Developed oil and gas rights	33,226,000	–	12,203,000	–	21,023,000
Oil and gas rights on Hudson's Bay Company lands	1,000	–	–	–	1,000
Wells and related facilities	189,820,000	31,366,000	58,374,000	–	100,080,000
Plants and related facilities	88,447,000	14,333,000	–	–	74,114,000
Pipe line and product distribution facilities	35,251,000	8,129,000	–	–	27,122,000
Other	2,755,000	1,337,000	–	–	1,418,000
Total – December 31, 1970	$398,479,000	$55,165,000	$70,577,000	$7,634,000	$265,103,000
Total – December 31, 1969	$370,027,000	$48,047,000	$65,306,000	$5,655,000	$251,019,000

Pursuant to an agreement the Company has an exclusive right until December 31, 1999 to lease any or all of the petroleum and natural gas rights owned by Hudson's Bay Company. The exercise of this right requires no bonus payment. The Hudson's Bay Company lands subject to this agreement totalled 4,514,000 acres at December 31, 1970, primarily in the Provinces of Alberta, Saskatchewan and Manitoba. A nominal value of $1,000 has been assigned to these rights.

(3) REMUNERATION OF DIRECTORS AND OFFICERS:

Aggregate direct remuneration paid or payable in 1970 by the Company and its subsidiaries to the Company's directors and officers amounted to $10,900 and $376,566 respectively. During the year there were a total of 11 directors and 10 officers of whom 2 served in both capacities.

(4) INCOME TAXES:

In determining taxable income under the provisions of the Income Tax Act and Regulations, the Company and each of its subsidiaries is permitted to deduct currently: exploration expenses; acquisition costs of petroleum and natural gas rights; costs of drilling both successful and unsuccessful wells; and capital cost allowances greater than depreciation reported in the accounts. Any excess of such deductions over income may be carried forward and applied in subsequent years. For all fiscal periods prior to 1970, the Company provided for income taxes only to the extent that they were currently payable. On October 20, 1970 the Board of Directors approved a major change in accounting policy by adopting deferred tax accounting on a retroactive basis with respect to all timing differences between net earnings and taxable income. The method adopted, including retroactive application, is in accordance with the recommendations of the Canadian Institute of Chartered Accountants. Accordingly, the balance of retained earnings at January 1, 1970 has been restated from the amounts previously reported to reflect the retroactive charge of $53,844,000 for deferred income taxes. Of this amount, $8,147,000 is applicable to 1969 and has been reflected as a provision for deferred income tax for that year; the balance, $45,697,000 is applicable to the years prior to 1969 and has been charged to retained earnings at January 1, 1969. Net earnings for 1969 are now reported as $18,883,000 or $.95 per common share as compared with previously reported net earnings of $27,030,000 or $1.40 per common share. After providing $4,260,000 for deferred income taxes with respect to 1970 operations, net earnings for the year were $20,170,000 or $1.02 per common share. On the previous basis of accounting, net earnings for 1970 would have been $24,430,000 or $1.25 per common share.

(5) AMOUNTS OWING TO AND FROM AFFILIATED COMPANIES:

Accounts receivable include $9,720,000 due from Continental Oil Company and its subsidiaries. Accounts payable include $348,000 due to Continental Oil Company and $102,000 due to Hudson's Bay Company. The foregoing balances resulted from transactions in the normal course of business. Dividends payable include $2,510,000 due to Continental Oil Company and $1,002,000 due to Hudson's Bay Company.

(6) LONG TERM DEBT:

	1970	1969
First Mortgage Sinking Fund Bonds		
4% Series A, due May 1, 1975 – remaining sinking fund requirements – $705,000 in 1972, $1,000,000 per annum 1973 and 1974 and $10,000,000 at maturity	$12,705,000	$13,870,000
5% Series B, due October 1, 1971	50,000	100,000
5¾% Series C, due August 1, 1977 – remaining sinking fund requirements – $125,000 in 1971, $160,000 per annum 1972 to 1976 and $100,000 at maturity	1,025,000	1,025,000
5½% Series D, due June 15, 1983 – remaining sinking fund requirements – $1,353,000 in 1972, $1,500,000 per annum 1973 to 1982 and $7,500,000 at maturity	23,853,000	25,688,000
7% Series E, due January 3, 1987 – remaining sinking fund requirements – $567,000 in 1973, $600,000 per annum 1974 to 1987	8,967,000	9,707,000
7.85% Series F, due April 15, 1994 (U.S. $25,000,000 issued and pledged to secure payment of the 7.85% Collateral Trust Bonds due 1994)	–	–
	46,600,000	50,390,000
Collateral Trust Bonds		
7.85% Collateral Trust Bonds due April 15, 1994 – sinking fund requirements U.S. $1,250,000 per annum 1979 to 1993 and U.S. $6,250,000 at maturity. (U.S. $25,000,000 recorded at exchange rate in effect at date of issue)	26,909,000	26,909,000
Term Loan		
Secured by assignment of hydrocarbon reserves. Interest at prime bank rate for production loans, principal repayable in quarterly installments of $1,000,000 each with final installment due April 1, 1972	6,000,000	10,000,000
	79,509,000	87,299,000
Less long term debt due within one year	4,175,000	4,238,000
	$75,334,000	$83,061,000

The aggregate payments of principal required on the foregoing long term debt in each of the next five years are as follows: $4,175,000 in 1971; $4,218,000 in 1972; $3,227,000 in 1973; $3,260,000 in 1974 and $12,260,000 in 1975.

The loans of $156,000 recorded as a deduction from production payments receivable were incurred for the purposes of financing the cost of acquiring certain petroleum and natural gas rights which have been assigned as security for these loans. Since repayments of these loans and interest thereon is to be made exclusively from the proceeds of production from the assigned interests and the Company has no other obligation, the loans have been deducted from the production payments receivable.

Interest expense of $5,478,000 includes interest of $5,332,000 on long term debt described in the above table; interest of $95,000 on production loans described in the preceding paragraph; and other interest charges of $51,000.

(7) CAPITAL STOCK:

The Preferred Shares Series A are redeemable at the option of the Company from October 15, 1972 through October 14, 1977 at $53.50 and thereafter at $51.00. At the option of the holder each Preferred Share Series A may be converted, subject to adjustment under certain circumstances, into one and one-fifth Common Shares at any time on or before October 15, 1972 or thereafter may be converted into one Common Share on or before October 15, 1977 or such earlier date as may result from notice of redemption of the shares.

At December 31, 1970 there were 720,000 Common Shares reserved for issue upon exercise of the rights of conversion attaching to the Preferred Shares Series A, being the maximum number of Common Shares that would be issued if all the Preferred Shares Series A were converted during the first conversion period.

(8) COMMITMENTS AND CONTINGENT LIABILITIES:

The Company has a contingent liability to purchase a maximum of $2,312,000 of bonds of a pipe line company in which it has a share ownership. In addition, the Company has guaranteed the payment of principal (amounting to $2,974,000 at December 31, 1970) and interest on certain outstanding debentures of the same pipe line company.

Hudson's Bay Oil and Gas Company Limited

Incorporated under the Laws of Canada

BOARD OF DIRECTORS

A. W. TARKINGTON, *Chairman, New York, Vice-Chairman of the Board of Directors of Continental Oil Company*

J. R. MURRAY, *Vice-Chairman, Winnipeg, Managing Director of Hudson's Bay Company*

T. N. BEAUPRÉ, *Montreal, President and Chairman of the Board of Directors of Domtar Limited and a Director of Hudson's Bay Company*

W. E. GLENN, *Houston, President of Western Hemisphere Petroleum Division and a Director of Continental Oil Company*

D. C. JONES, *Calgary, President of the Company*

HERBERT H. LANK, *Montreal, Director of DuPont of Canada Limited*

A. M. MCGAVIN, *Vancouver, President of McGavin ToastMaster Limited and a Director of Hudson's Bay Company*

J. G. MCLEAN, *New York, President and Chief Executive Officer and a Director of Continental Oil Company*

L. J. RICHARDS, *Calgary, Petroleum Consultant*

J. S. ROYDS, *New York, Senior Vice-President, World-Wide Coordinator of Exploration and Director of Continental Oil Company*

OFFICERS

D. C. JONES, *President*

S. G. OLSON, *Executive Vice-President*

K. H. BURGIS, *Corporate Vice-President*

R. J. HAMILTON, *Vice-President, Exploration*

G. J. MAIER, *Vice-President, Production*

R. F. HASKAYNE, *Financial Vice-President and Treasurer*

G. W. BENNETT, *Controller*

W. E. SELBY, *Secretary*

F. J. MAIR, *Assistant Secretary*

TEN YEAR FINANCIAL REVIEW (1)

	1970	1969
GROSS OPERATING REVENUES		
Crude Oil	$ 40,416	36,580
Natural Gas Liquids	$ 12,926	10,593
Natural Gas	$ 17,938	15,742
Sulphur	$ 1,421	4,272
Processing Non-owned Gas	$ 3,061	2,659
Pipe Line and Product Distribution	$ 8,428	6,649
TOTAL	$ 84,190	76,495
EARNINGS AND DIVIDENDS		
Net Earnings Before Income Taxes	$ 32,284	29,390
Income Taxes – Payable	$ 7,854	2,360
– Deferred	$ 4,260	8,147
Net Earnings (2)	$ 20,170	18,883
Per Common Share	$ 1.02	.95
Funds Generated from Operations	$ 44,607	44,794
Per Common Share	$ 2.36	2.37
Total Dividends Declared	$ 10,647	10,647
Per Common Share	$ .50	.50
Per Preferred Share	$ 2.50	2.50
FINANCIAL POSITION		
Working Capital	$ 19,486	25,408
Property Plant and Equipment – Net	$265,103	251,019
Deferred Income Taxes	$ 58,104	53,844
Long-Term Debt	$ 75,334	83,061
Shareholders' Equity	$148,590	139,067
Number of Preferred Shares Outstanding (thousands)	600	600
Number of Common Shares Outstanding (thousands)	18,294	18,294
CAPITAL EXPENDITURES AND EXPLORATION EXPENSES		
Acquisition of Oil and Gas Rights	$ 5,658	14,171
Exploratory Drilling	$ 5,286	4,031
Development Drilling and Production Facilities	$ 8,821	10,893
Plants and Related Facilities	$ 15,462	8,663
Pipe Line and Product Distribution Facilities	$ 1,680	1,496
Other	$ 457	425
Total Capital Expenditures	$ 37,364	39,679
Geological, Geophysical and Other Exploration Expenses	$ 5,625	6,955
Lease Rentals	$ 2,696	2,483
Total Exploration Expenses	$ 8,321	9,438
TOTAL CAPITAL EXPENDITURES AND EXPLORATION EXPENSES	$ 45,685	49,117
EMPLOYEES AND SHAREHOLDERS		
Number of Preferred Shareholders	2,625	2,677
Number of Common Shareholders	9,751	8,688
Number of Employees	1,043	938

(1) With the exception of per share figures, dollar amounts are in thousands.

(2) Net earnings after income taxes for the years 1961 through 1969 have been restated to reflect deferred tax accounting

(3) Exclusive of special credit of $856,000.

(4) Includes $27,866,000 acquisition costs of Consolidated Mic Mac Oils Ltd. and Security Freehold Petroleums Limited.

TEN YEAR OPERATING REVIEW

	1970	1969
CRUDE OIL AND NATURAL GAS LIQUIDS PRODUCTION – NET (Barrels per day)		
Crude Oil – Alberta	34,343	31,832
British Columbia	6,408	6,100
Saskatchewan	4,791	4,527
Manitoba	18	19
	45,560	42,478
Condensate	11,890	10,058
LPG	2,718	1,890
TOTAL CRUDE OIL AND NATURAL GAS LIQUIDS	60,168	54,426
NATURAL GAS SALES – NET (Millions of cubic feet per day)	317.0	281.7
SULPHUR (Net long tons per day) – Production	1,246	955
Sales	917	760
PIPE LINE		
Throughput (Barrels per day)	81,930	70,135
Miles of Trunk Line	420	420
Miles of Gathering Facilities	450	425
WELL DATA		
NET DEVELOPMENT WELLS COMPLETED		
Oil	23.8	31.5
Gas	13.4	19.8
Dry	12.3	6.7
TOTAL	49.5	58.0
NET EXPLORATORY WELLS COMPLETED		
Oil	2.7	4.0
Gas	8.1	4.9
Dry	24.0	43.1
TOTAL	34.8	52.0
TOTAL GROSS WELLS COMPLETED	225	244
NET WELLS CAPABLE OF PRODUCTION		
Oil Wells	1,010.7	1,010.3
Gas Wells	241.9	226.5
TOTAL	1,252.6	1,236.8
OIL AND GAS RIGHTS – NET (Thousands of acres)		
Undeveloped		
Alberta	3,812	4,005
Saskatchewan	4,511	4,742
British Columbia	2,634	2,391
Northwest Territories (including Arctic Islands)	5,216	5,197
Maritimes	5,195	5,195
Manitoba	789	789
TOTAL UNDEVELOPED	22,157	22,319
Developed	534	512
TOTAL	22,691	22,831

1968	1967	1966	1965	1964	1963	1962	1961
31,804	29,386	25,856	25,456	26,389	25,057	22,167	22,521
5,710	5,693	5,247	3,083	2,220	2,216	1,354	178
4,919	5,259	4,826	4,582	4,294	3,799	3,265	2,668
19	16	14	13	10	10	4	5
42,452	40,354	35,943	33,134	32,913	31,082	26,790	25,372
6,091	6,282	5,944	5,303	4,877	4,373	3,349	1,311
972	658	569	453	346	231	215	139
49,515	47,294	42,456	38,890	38,136	35,686	30,354	26,822
233.3	196.7	169.5	138.2	116.6	104.6	82.1	60.1
500	481	404	344	246	238	140	11
406	433	386	343	245	237	132	5
66,578	58,812	56,123	57,502	58,817	53,724	42,678	30,759
420	420	391	200	200	200	187	117
423	366	334	314	297	266	211	166
19.3	30.0	34.8	38.4	60.2	66.3	65.1	52.7
16.2	17.1	9.8	10.3	8.0	8.7	7.1	2.7
6.9	8.8	12.1	11.0	9.8	14.9	13.8	5.2
42.4	55.9	56.7	59.7	78.0	89.9	86.0	60.6
4.8	19.9	9.5	7.2	5.0	5.4	2.8	3.5
3.9	8.0	9.0	4.2	7.7	8.1	2.3	5.2
29.5	33.3	40.0	28.9	28.9	22.1	16.8	9.6
38.2	61.2	58.5	40.3	41.6	35.6	21.9	18.3
166	203	222	195	225	249	164	126
978.7	992.2	957.1	919.7	917.2	877.0	754.6	698.6
201.1	189.7	166.8	152.7	136.2	125.3	97.4	88.0
1,179.8	1,181.9	1,123.9	1,072.4	1,053.4	1,002.3	852.0	786.6
4,610	5,520	6,434	6,699	5,745	5,601	4,367	4,267
4,751	4,996	5,196	3,931	2,960	2,980	2,655	2,584
1,078	980	1,025	1,203	1,161	1,952	2,000	2,379
3,571	2,293	2,033	1,871	1,027	1,461	1,697	1,717
5,405	4,583	9,167	9,167	–	–	–	–
789	789	789	789	792	792	703	703
20,204	19,161	24,644	23,660	11,685	12,786	11,422	11,650
472	405	383	356	347	321	274	242
20,676	19,566	25,027	24,016	12,032	13,107	11,696	11,892

1968	1967	1966	1965	1964	1963	1962	1961
36,671	34,848	31,358	28,867	28,879	27,112	22,987	20,887
6,490	6,314	5,826	5,196	4,709	4,312	3,234	1,097
12,445	10,483	9,009	7,339	5,954	5,218	3,895	2,478
4,004	3,641	1,527	1,428	430	411	241	30
1,381	1,389	1,197	820	593	666	414	211
5,893	5,013	3,565	3,567	3,677	3,305	2,825	2,236
66,884	61,688	52,482	47,217	44,242	41,024	33,596	26,939
26,810	22,139	17,371	15,355	13,803	12,331	10,166	7,006
20	–	–	–	–	–	–	–
9,389	7,623	6,055	5,527	5,138	5,868	3,336	2,524
17,401	14,516	11,316	9,828	8,665	6,463	6,830 (3)	4,482
.87	.77	.62	.54	.47	.35	.38	.25
42,751	38,277	32,813	29,444	27,372	25,760	21,106	16,440
2.25	2.07	1.79	1.61	1.50	1.41	1.19	.93
10,647	9,522	7,318	7,318	6,403	5,488	5,324	3,549
.50	.50	.40	.40	.35	.30	.30	.20
2.50	.625	–	–	–	–	–	–
3,824	29,367	1,730	(3,456)	(3,750)	(213)	(6,501)	(1,177)
231,828	198,265	181,225	165,394	153,889	144,295	106,861	97,219
45,697	36,308	28,685	22,630	17,103	11,965	6,097	2,761
62,593	69,743	66,653	49,800	51,000	52,570	23,539	25,018
130,831	124,077	89,615	85,617	83,107	80,845	71,382	69,020
600	600	–	–	–	–	–	–
18,294	18,294	18,294	18,294	18,294	18,294	17,745	17,745
5,766	1,493	3,775	7,847	3,037	28,534	4,320	2,138
5,303	8,053	5,873	4,535	4,191	4,663	3,224	2,105
10,622	13,100	8,891	7,618	10,433	12,396	8,287	7,704
26,428	6,049	4,788	5,861	5,350	2,812	1,899	6,849
3,305	5,085	8,536	847	812	2,341	3,315	2,426
932	536	354	362	358	161	245	131
52,356	34,316	32,217	27,070	24,181	50,907 (4)	21,290	21,353
5,767	5,156	3,319	2,720	2,570	2,269	2,535	1,841
2,572	2,280	2,857	2,908	2,224	2,191	2,027	2,032
8,339	7,436	6,176	5,628	4,794	4,460	4,562	3,873
60,695	41,752	38,393	32,698	28,975	55,367	25,852	25,226
2,851	3,312	–	–	–	–	–	–
8,864	9,254	9,859	10,674	11,548	12,526	11,038	11,485
849	738	613	574	506	475	454	425

adopted by the Company in 1970.

Hudson's Bay Oil and Gas Company Limited

HEAD OFFICE

320 Seventh Avenue South West, Calgary 2, Alberta

SUBSIDIARY COMPANIES (All Wholly-Owned)

AURORA PIPE LINE COMPANY, *incorporated by Special Act of the Parliament of Canada*

BLUE FLAME PROPANE LTD., *incorporated under the Laws of the Province of Alberta*

HBOG MINING LIMITED, *incorporated under the Laws of the Province of Ontario*

MIC MAC OILS (1963) LTD., *incorporated under the Laws of the Province of Alberta*

RANGELAND PIPE LINE COMPANY LIMITED, *incorporated under the Laws of the Province of Alberta*

SECURITY FREEHOLD PETROLEUMS LIMITED, *incorporated under the Laws of Canada*

TRANSFER AGENTS

Common Shares

MONTREAL TRUST COMPANY,
Calgary, Montreal, Regina, Toronto, Vancouver and Winnipeg

MORGAN GUARANTY TRUST COMPANY OF NEW YORK,
New York

Preferred Shares

MONTREAL TRUST COMPANY,
Calgary, Montreal, Regina, Toronto, Vancouver and Winnipeg

STOCK EXCHANGE LISTING

Common Shares

TORONTO STOCK EXCHANGE
MONTREAL STOCK EXCHANGE
AMERICAN STOCK EXCHANGE

Preferred Shares

TORONTO STOCK EXCHANGE
MONTREAL STOCK EXCHANGE

AUDITORS

PEAT, MARWICK, MITCHELL & CO.,
Calgary

LITHOGRAPHED IN CANADA

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Preferred Shares

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